February 8, 2006

WORKING CAPITAL FUND

FY 2006 First Quarter Report: Summary

I. Relation of Earnings to Expenses

Based on our reviews, the Fund is on track for a break-even year in FY 2006. Earned revenue for the Fund has totaled slightly over $23.7 million for the first quarter, on track for an annual level of approximately $101 million, as forecast in Table III of the December bill. Business Expense for the same period was $22.4 million resulting in net income of $1.4 million.

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended primarily to identify emerging annual issues that may warrant changes in Board pricing policies.

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FY 2006 First Quarter Cumulative Business Results (in Millions)

TABLE I			
Business Line	**First Quarter Earnings**	**First Quarter Business Expenses**	**First Quarter Net**
Supplies	$0.7	$0.7	$0.0
Mail	$0.7	$0.7	$0.0
Copying	$0.5	$0.6	$0.1
Printing/Graphics	$0.6	$0.6	$0.0
Building Occupancy	$15.8	$15.2	$0.6
Telephones	$2.3	$1.9	$0.4
Desktop	$0.2	$0.2	$0.0
Network	$1.5	$1.2	$0.2
Procurement Services	$0.1	$0.2	-$0.1
Payroll Processing	$0.5	$0.5	$0.0
CHRIS	$0.5	$0.1	$0.4
Corp Training Services	$0.1	$0.1	$0.0
PMCDP	$0.3	$0.5	$(0.2)
STARS	$0.0	$0.0	$0.0
TOTAL [1]	**$23.7**	**$22.4**	**$1.4**

1 When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

With few exceptions, the net earnings by business line are consistent with a longer-term breakeven position. For example, historical building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. PMCDP implementation is proceeding in a manner to draw down balances accumulated in the first year. Specific differences in excess of $50,000 are as follows:

- Copy Business Line reported net earnings of $92,678 through the first quarter due to the large number of color copies produced. Color copies have high fixed costs and when the numbers increase, the positive net income exhibit disproportional increases.

- The Building Occupancy Business Line had net earnings of $561,253 through the first quarter due to delayed activities caused by the continuing resolution.

- The Telephone Business Line had net earnings of $372,287 through the first quarter due primarily to collection of revenues for depreciation without any actual depreciation cost and one-time cost savings. This adds to funds that could be available to support the infrastructure upgrades once a plan is presented to the Board.

- The Network Business Line had net earnings of $237,100 through the first quarter, basically on track for the accumulation of capital authorized by the Board in the late 2003 pricing policy changes and one-time cost savings. We expect the net income for FY 2006 to approximate $300,000.

- Procurement Services had net earnings of -$83,621, due to closing out contracts in the first quarter that generate less revenue. We expect the net to be zero at year end.

- CHRIS had net earnings of $411,858 due to a deferred capital equipment purchase, which is planned for the second quarter of FY 2006 and will be expensed as depreciation.

- PMCDP costs are estimated to be in excess of earnings by $202,481, primarily due to the drawdown in balances obligated in the initial FY 2004 year; however, no change in pricing policy is needed.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings downward by $3.2 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted to offset the reverse billing for August/September usage billed in October/November. Due to STARS implementation, there were uneven cost accruals for the First Quarter. For that reason, we have adjusted expenses to simulate the effect of full accruals. This net cost adjustment was $19.5 million, which is approximately 1.6 months of spending; which is consistent with adjustments from prior periods.

II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By December, 2005 we had collected $43.6 million (including prior year funding) compared with the estimated $101 million in FY 2006 annual revenues, and during January other organizations have made further advances. The Fund Manager is working with customers to fully fund their WCF requirements as soon as possible.

Table II is not presented in this report because we are still determining final customer carryover balances from STARS and there were numerous customer advances outstanding.

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III. Relation of Payments to Obligations by Business Line

- There have been no violations of administrative control of funds procedures by WCF business lines. Unlike the second half of FY 2005, automated controls have been reestablished in STARS.

- As shown in Table III, funds available exceeded obligations by an estimated $ 31.3 million by the end of the first quarter. This was due largely to delays in acquiring customer funding and cautious behavior of the various businesses during the continuing resolution.

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FY 2006 First Quarter Business Results (in Millions)

TABLE III

Business Line	Unobligated Balance [2] 10/05	Current Year Customer Advances	Total available for Obligation	First Quarter Obligations	Advances Remaining to be Obligated
Supplies	$ 2.5	$ 0.0	$ 2.5	$ 0.9	$ 1.6
Mail	1.4	0.5	1.9	0.4	1.5
Copying	0.8	0.5	1.3	0.2	1.1
Printing/Graphics	1.3	0.0	1.3	0.1	1.2
Building Occupancy	6.1	17.5	23.6	13.9	9.7
Telephones	3.5	0.4	3.9	0.0	3.9
Desktop	0.0	0.1	0.1	0.0	0.1
Network	3.0	0.7	3.7	0.0	3.7
Procurement Services	1.4	0.0	1.4	0.1	1.3
Payroll Processing	3.4	0.0	3.4	0.4	3.0
CHRIS	0.2	0.8	1.0	0.2	0.8
Corp Training Services	0.5	0.0	0.5	0.0	0.5
PMCDP	0.6	0.0	0.6	0.0	0.6
STARS	0.0	2.3	2.3	0.0	2.3
TOTAL	**$ 24.7**	**$ 22.8**	**$ 47.5**	**$ 16.2**	**$ 31.3**

2 The unobligated balances are made up of earned and unearned customer advances from the prior fiscal year. These funds often act as working capital during the early weeks of a new fiscal year.

IV. Changes in Budget Estimates by Business Line and Customer

The $3.8 million increase from the May 2004 to the December 2004 estimate for FY 2006 was the result of adding a new business to finance the Standard Accounting and Reporting System (STARS) $3.5 million and $0.2 million in building rent. Otherwise the FY 2006 billing estimates are reasonably aligned with prior estimates.

FY 2006 Budget Estimates for WCF Businesses

Date	Process	FY 2006 Billing Estimate ($Millions)
May 2004	FY 2006 Corporate Review	$97.1
December 2004	FY 2006 Congressional Budget	$100.9
April 2005	FY 2007 Corporate Review	$100.9
December 2006	FY 2007 Congressional Budget	$101.0

V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the first quarter reviews with the businesses the Fund Manager foresees no immediate need to change pricing policies in any businesses. However, businesses are reviewing their five-year plans in preparation for the FY 2008 budget process. Businesses will begin briefing the Board on requirements in the March Board meeting.

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VI. Financial Management Systems Progress Working Capital Fund Billing System

The WCF billing system continued to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to DISCAS/STARS by the second working day of the month (a decrease of two working days). This allows the Fund staff, with the cooperation of EFASC officials, to have the billings entered into STARS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in DISCAS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.

During the First Quarter of FY 2005 the Fund Manager examined source data and systems that feed billing information to the billing system in order to document their characteristics, to identify and mitigate potential risks, to identify best practices, and to develop opportunities for improvement. We are following-up on recommendations and re-examining high risk areas to determine if further actions are required. A complete discussion of this analysis is available on www.wcf.doe.gov .